D.T.E. 99-60 - Fitchburg Gas and Electric Light Company d/b/a Unitil ("Unitil")

Default Service Bid Evaluation Report

(1) Small Customer Group
(2) Medium Customer Group
(3) Large Customer Group

REDACTED VERSION

File Date: April 21, 2006

Fitchburg Gas and Electric Light Company d/b/a Unitil ("Unitil")
Electric Default Service Bid Evaluation Report

Table of Contents

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Introduction

On Thursday, March 16th, 2006, Unitil announced that its Request for Proposals ("RFP") for default service supplies for all three of its customer groups for the period beginning June 1, 2006 was available.[1]

The RFP implemented a competitive bid process that resulted in fixed monthly pricing for all three of Unitil's customer groups, in accordance with D.T.E. 99-60. Unitil sought and purchased fifty percent (50%) of default service requirements for its Small Customer Group and Medium Customer Group for the twelve-month period of June 1, 2006 through May 31, 2007 in accordance with D.T.E. 02-40-B. Unitil also sought and purchased one hundred percent (100%) of default service requirements for its Large Customer Group for the three-month period of June 1, 2006 through August 31, 2006 in accordance with D.T.E 02-40-C. Unitil's Small Customer Group consists of rate classes RD-1, RD-2 and GD-1; Unitil's Medium Customer Group consists of rate classes GD-2, GD-4, GD-5 and SD; and Unitil's Large Customer Group consists of rate class GD-3.

The resulting prices obtained by Unitil are reflective of current market conditions and as such represents a decrease from Unitil's last combined solicitation of six months ago. Since the period during which supplies were sought for the Small Customer Group and Medium Customer Group extends beyond October 1, 2006, the current proposed capacity market implementation date, Unitil sought bids that both included and excluded the provision of capacity under fixed monthly prices. Unitil's approach to the uncertainty related to capacity market rules is described in the "Treatment of Capacity" section below.

The RFP sought bids that did not include Renewable Energy Certificates ("RECs") for compliance with Renewable Portfolio Standards ("RPS"). Unitil will procure the RECs required for RPS compliance independent of its default service procurements. Unitil's approach to compliance with the RPS obligations associated with its default service loads is described in the section labeled "Compliance with Renewable Portfolio Standards," as required by D.T.E. 02-40-B.

This Report describes Unitil's solicitation process and its selection of the winning bidders. A copy of the RFP is attached as Tab A. Unitil's comparison of bids, which is confidential and for which Unitil seeks protective treatment as described in the cover letter and motion for protective treatment accompanying this filing, is attached as Tab B. Also, a broker sheet which report on the current market for Massachusetts Renewable Energy Certificates is attached as Tab C.

Solicitation Process

Unitil accomplished market notification of the RFP by announcing the availability of the RFP electronically to all participants in NEPOOL, in particular, to the members of the NEPOOL Markets Committee on Thursday, March 16, 2006. In addition, Unitil announced the issuance of the RFP to a list of contacts from energy companies and interested parties who have previously expressed interest in receiving copies of Unitil's solicitations. The list includes individuals representing 28 separate energy companies who were provided with the announcement; this count does not include other distribution companies, consultants (unless working of behalf of a named client who might

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[1] The term "default service" is used for procurement purposes and is used throughout this Report. However, default service supply will be delivered to retail customers as "basic service" in accordance with

participate), brokers or members of public agencies. The RFP documents were provided to interested parties using Unitil's corporate website (www.unitil.com/rfp). A copy of the RFP and its appendices is attached as Tab A.

The RFP described the particulars of Unitil's default service, the related customer-switching rules, and the form of power service sought. In order to gain the greatest level of market interest in supplying the load, Unitil endeavored to provide potential bidders with appropriate and accessible information as well as flexibility with regard to contracting options.

Along with the RFP, Unitil provided potential bidders with historic hourly loads served by Unitil as default service for the period January 1, 2003 through March 10th, 2006, for each customer group. Unitil also compiled into an Excel spreadsheet its historic DOER 110 reports from January 2000 through February 2006. The DOER 110 report details by customer rate class the number of customers and monthly retail billed kWh sales by rate class and supply type.

In order to communicate to bidders the relative concentration of the Large Customer Group, Unitil provided a listing of its 34 large (GD-3) customers, labeled generically, showing each customer's annual peak and energy requirements, their meter read cycle, their current source of power supply (default service or competitive supply) and the date of their last supply type change. A calendar was provided showing the meter read dates associated with each meter read cycle. Unitil also provided information instructing potential bidders in accessing class average load shape (8760 hours) data on Unitil's website. Lastly, Unitil provided estimated monthly loads for each customer group over the term of the period for which service was sought. Unitil used these estimated monthly loads to evaluate and weight competing bids for each customer group in terms of price.

In order to provide consistency and ease of participation for interested suppliers, Unitil provided a standard contract with the RFP which it has successfully negotiated in similar form with several suppliers. In addition, to provide contracting flexibility, Unitil remains open to tailoring contracts that had previously been negotiated between Unitil and potential suppliers to fit the current transaction. Throughout the solicitation, Unitil responded to bidder questions and actively participated in maintaining bidder interest in the solicitation through regular telephonic and electronic communications.

On Tuesday, April 11th, 2006, Unitil received proposals from several different respondents that included detailed background information on the bidding entity, proposed contractual terms and indicative pricing. Unitil reviewed the proposals and worked with the bidders to establish and evaluate their creditworthiness, their extension of adequate credit to Unitil to facilitate the transaction, their capability of performing the terms of the RFP in a reliable manner, and their willingness to enter into contract terms acceptable to Unitil. All bidders were invited to submit final bids.

On Tuesday, April 18, 2006, Unitil received final pricing from bidders who participated in the indicative round and conducted its evaluation. Unitil selected its winning bidders and all other bidders were notified that they were not selected.

Treatment of Capacity

Due to the continued litigation of rules for the New England capacity market, Unitil recognized that there may be a great deal of uncertainty relating to the value of capacity during the period for which supplies are sought. To protect against the risk that such uncertainty could lead bidders to include in their fixed price bids relatively high costs for the provision of capacity, Unitil required bids that both included and excluded the provision of capacity under fixed prices beginning in October 2006; that date was chosen because the Federal Energy Regulatory Commission (“FERC”) said it would not implement a new capacity market prior to October 2006. Supply service sought for the Small Customer Group and Medium Customer Group extends through May 2007, and as such was subject to this capacity pricing for the final eight (8) months of the term sought. Unitil proposed provisional contract language that facilitates the pass through of actual reasonable net costs associated with providing capacity in the event winning bids chosen excluded capacity costs from fixed pricing during the time period of October 2006 through May 2007. The proposed contract language can be found in the RFP documents attached as Tab A at the following locations: page 9 of the RFP, the pricing forms at the end of Appendix A of the RFP and Section 5.1 and Appendix B of the Power Supply Agreement (Appendix B of the RFP).

Selection of Winning Bidders

Unitil based its selection of winning bidders on both quantitative and qualitative criteria. Unitil evaluated bids for each customer group separately. When the indicative bids were received, Unitil compared the proposed pricing strips by calculating weighted average prices for the periods during which service was sought, using the evaluation loads that were issued to bidders along with the RFP. Unitil then coordinated with bidders to obtain the best contractual and credit terms each bidder was willing to offer to Unitil and to establish confidence in each bidder’s ability to perform. When final bids were received, Unitil compiled the weighted average pricing strips, again using the evaluation loads that were issued to bidders along with the RFP. Unitil then evaluated the price and non-price aspects of the final bids received, including the implied value of capacity during October 2006 through May 2007, and awarded its default service load for each customer group to the supplier who provided the most overall value, in Unitil’s estimation. The bid comparison, which is confidential, is attached as Tab B.

Compliance with Renewable Portfolio Standards ("RPS")

Consistent with its recent practices, Unitil did not request that interested suppliers include along with their bids the provision of Renewable Energy Certificates ("RECs") that would comply with the Massachusetts Renewable Energy Portfolio Standards ("RPS") that became effective on January 1, 2003. Unitil recognizes its obligation as the retail supplier of default service to its customers to provide RECs in compliance with 225 CMR 14.00. Unitil intends to purchase qualifying RECs directly from the market separately from its default service solicitations. In compliance with DTE 02-40-B, a discussion of Unitil's approach to meeting its RPS obligations follows.

A number of factors come into play with regard to Unitil's approach to RECs compliance for its default service loads. Unitil believes that the market for Massachusetts qualifying RECs is currently illiquid, and that by the time Unitil is required to demonstrate compliance opportunities may arise to purchase RECs either from facilities that are not currently registered as qualifying Massachusetts new renewable facilities or from entities who come to have excess RECs after meeting their obligations. Unitil also expects that it may be able to receive more favorable RECs pricing if the periods for which RECs are sought are flexible. Unitil's ability to bank RECs in its New England Generation Information System ("NE-GIS") account is expected to allow Unitil to utilize the RECs it acquires efficiently, rather than requiring pricing based on a specific delivery period.

Unitil considers that suppliers bidding in its solicitations to provide default service are not necessarily the parties who hold title to RECs. Anecdotal evidence suggests that default service suppliers simply factor the cost of alternative compliance into their pricing. It is likely that some holders of RECs do not have the bulk power supply presence to compete for and win a default service solicitation. Meanwhile, nothing would prohibit a bulk power supplier from selling RECs they may have directly in the RECs market. While there are secondary markets for RECs, they are not very liquid.

However, Unitil prefers to go to these markets directly or to participate in periodic auctions directly and possibly acquire RECs at a lower cost than alternative compliance.

Unitil believes it is administratively more efficient to purchase and deliver RECs to its NE-GIS account independent of its default service procurement schedule since it expects to have thirteen different default service contracts each calendar year[2]. Since Unitil's default service schedule does not fall on a quarterly basis, as does the schedule for demonstrating RPS compliance, additional administrative requirements result.

Unitil's approach with regard to establishing the cost of RPS compliance in its proposed retail rates for default service, as described in a filing under separate cover today, is to assume an estimated cost of compliance. Unitil's expected cost of RPS compliance is $53.25 for 2006 . This estimate reflects recent quotes for RECs as reflected on the broker sheet attached as Tab C.

[2] The thirteen Default Service contracts would be as follows: (1) Large Customer Group from Jan-Feb, (2) Large Customer Group from Mar-May, (3) Large Customer Group from Jun-Aug, (4) Large Customer Group from Sep-Nov, (5) Large Customer Group for Dec, (6) 50% Medium Customer Group for Jan-May, (7) 50% Medium Customer Group for Jan-Nov, (8) 50% Medium Customer Group for Jun-Dec, (9) 50% Medium Customer Group for Dec, (10) 50% Small Customer Group for Jan-May, (11) 50% Small Customer Group for Jan-Nov, (12) 50% Small Customer Group for Jun-Dec, (13) 50% Small Customer Group for Dec.
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Tab A. FG&E Default Service RFP

Tab B. Comparison of Bids - CONFIDENTIAL

CONFIDENTIAL

Tab C. Renewable Energy Certificate Broker Sheet